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E.O. 12958: DECL: 08/16/2016
TAGS: [ECON](#) [EINV](#) [ENRG](#) [EPET](#) [BL](#)
SUBJECT: GOB NEGOTIATIONS WITH PETROBRAS STALLED

REF: LA PAZ 2196

Classified By: Amb. David N. Greenlee for reasons 1.4 (b) and (d).

¶1. (C) Summary: A Petrobras executive told Econoff on August 15 that no gas price agreement had been reached between Petrobras and Bolivia's state oil company YPFB, and that in fact, YPFB never presented a price proposal during the negotiations. The GOB also lacks a plan regarding implementation of its May 1 nationalization decree, including acquisition of Petrobras-owned refineries and contract conversion, he said. Because of the uncertainty of Bolivian gas supply and business opportunities in the sector, Brazil aims to become self-sufficient in gas within the next two to four years, and Petrobras is expanding investments in many South American countries besides Bolivia, where its investments are frozen. End comment.

Gas Price Negotiations on Hold

¶2. (C) On August 15, Petrobras executive Arturo Castanos (please protect) told Econoff that Brazilian-owned Petrobras had held four meetings with Bolivian state oil company YPFB to discuss revising the price of Bolivian gas exports to Brazil. In those four meetings, he said, YPFB presented neither a fixed price proposal nor a proposal to change the price formula in the Gas Sales Agreement (GSA) between the two countries. Castanos said that Petrobras argued for abiding by the price formula in the GSA, in force until 2019. Under this formula, the price has risen from USD 1 to USD 4 (or USD 5.7 at city gate in Sao Paulo) since the GSA was signed in 1994. Both sides decided to postpone negotiations until after Brazilian presidential elections in October (reftel). In response to Bolivian threats to procede to arbitration if no agreement was reached, Castanos responded that Petrobras would be happy to go to arbitration in order to have a reasonable interlocutor.

No Progress on Contract/Refinery Negotiations

¶3. (C) Castanos said that the GOB lacks a plan regarding implementation of its May 1 nationalization decree, including

acquisition of Petrobras-owned refineries and signing a new contract with the company. He said that the GOB held meetings to request information from Petrobras between May 1 and June 20, but that the talks had been suspended since then. He complained that the GOB's auditing procedure begun in late July was a travesty, with only one of the hired firms having any prior auditing experience. The four types of audits of the past ten years of operations of 54 fields are scheduled to be completed on October 28, in only three months. Such a task was "merely a show" that would result in GOB accusations against the companies that they had not invested sufficient funds, had earned enough already, and had sold contraband, Castanos predicted. The GOB alleged on August 15 that Petrobras was responsible for many of the failures (reftel) of the GOB's nationalization plan. (Comment: These allegations could have some grain of truth, as Petrobras acknowledged to us that it has not been paying the additional 32 percent tax imposed by the May 1 decree, with which the GOB planned to revamp YPFB. End comment.)

Brazil Decreases Dependence on Bolivian Gas

¶4. (SBU) Meanwhile, Brazil aims to become self-sufficient in natural gas within the next two to four years. Castanos said that Brazil would continue to import Bolivian gas as required under contract, but would no longer be dependent. Petrobras has put all but contractually-required investments on hold in Bolivia and is expanding operations in other countries (reftel). Brazilian embassy contacts told us August 16 that Petrobras would seek to expand business in almost all South American countries except Bolivia, including Uruguay, Peru, and Venezuela. They noted that Bolivia unrealistically did not believe that Brazil was taking actions to become self-sufficient in gas, but rather believed Brazil's claims to be a bargaining ploy.

¶5. (C) Comment: In the medium and long-term, Bolivia is more dependent on earnings from natural gas sales to Brazil than Brazil is on Bolivian energy. Bolivia's current negotiating posture seems based on unrealistic expectations and a failure to correctly assess the willingness of Petrobras and Brazil to cut a potentially uneconomic deal with an increasingly intransigent partner. What we are hearing from the Brazilians here is that if the cost of doing business is too high in Bolivia, Brazil will aggressively seek other hydrocarbons options. End comment.

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